

## Basics of Cost Allowability: OMB Circular A-87

Session 3  
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## What Are “Cost Principles”

- Federal Policies for Determining:
  - (1) What Costs Can Be Charged to Federal Awards
  - (2) What Costs Cannot Be Charged to Federal Awards
  - (3) How Allowable Costs Are to Be Documented

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## The Federal Cost Principles Universe

- OMB Circular A-21—Educational Institutions (2 CFR 220)
- **OMB Circular A-87—State, Local and Tribal Governments (2 CFR 225)**
- OMB Circular A-122—Nonprofit Organizations (2 CFR 230)
- 45 CFR 74, Subpart E—Hospitals
- 48 CFR 31.2—Commercial Entities

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## What Federal Awards Do Cost Principles Apply to?

- Cost-reimbursable Grants
- Cost-reimbursable Cooperative Agreements
- Cost-reimbursable Contracts
- Cost-reimbursable Subawards (Subcontracts, Subgrants, Contracts Under Grants)

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## What Federal Awards Don't the Cost Principles Apply to?

- Fixed Price Contracts
- Fixed Obligation Grants
- Capitated Awards
- However...if cost components are used to arrive at the fixed amount...then...

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## Background

- Initial Issuance (1968)
- Revisions (1974, 1981, 1995, 2004)
- Key Issues:
  - Interest Allowability
  - Time and Effort Reporting
  - Consistency with Other Circulars

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## Organization of the Circular

- Basic Policies
- General Tests of Allowability
- Discussion of "Selected" Items of Cost
- Prescribed Methods for Recovery of Indirect Costs

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## Key Basic Policies

- Federal "Fair Share"
- Grantee Organizational Integrity and Discretion
- Applicability to Subawards
- Definitions
  - Approval
  - Cost Objective

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## Direct vs. Indirect

- "Accounting Convenience"
- Typical Direct Costs
- Typical Indirect Costs

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## The General Tests of Allowability (Attachment A, Section C)

- Reasonable
- Allocable
- Consistent with Organizational Policies
- Consistently Treated in All Circumstances
- Subject to Properly Imposed Limitations
- Consistent with GAAP (unless otherwise stated)
- Not Charged Elsewhere
- Net of Applicable Credits
- Adequately Documented

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## The "Selected" Items of Cost

- Allowable
- Allowable Under Certain Conditions
- Allowable with Prior Approval
- Allowable with Approval
- Unallowable

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### Determining the Allowability of Selected Items

- “Failure to Mention...”
- Guidance for Interpretation
  - Explicit Statement in Circular
  - Discussion of Similar Items in Circular
  - Treatment in Other Cost Principles
  - Use of the General Tests of Allowability

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### Allowability of “Big Ticket” Items Attachment B

- Employee Compensation
  - Salaries and Wages
  - Fringe Benefits
- Travel
- Equipment
- Supplies
- Consultants and Other Independent Contractors
- Space Occupancy
- “Fun and Games”

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### Key Standards for Time and Effort Reporting

- Retained *not* submitted
- *After-the-fact* distribution
- Full disclosure of all activity
- Credible signature of knowledgeable person
- Role of budget estimates

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### Policies for Time and Effort Distribution

- Workers on a single federal award
- Workers on multiple activities, including:
  - More than one federal award
  - A federal award and a non-federal activity
  - An indirect cost activity and a direct cost activity
  - Two indirect cost activities distributed on different bases
  - An unallowable activity and a direct or indirect cost activity

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### Possible Bases for Distribution of Common Costs

- Relationship to Benefits Received
- Examples:
  - Square footage
  - Number of personnel
  - Number of transactions
  - Total direct cost of each benefiting activity

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### Fundamentals of Allocation of Indirect Costs

- Central Service Cost Allocation Plans
- Indirect Cost Rate Proposals
- Public Assistance Cost Allocation Plans
- Implementation Guide for Office of Management and Budget Circular A-87 (ASMB C-10)

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## How a Governmental Unit Gets a Rate

- Indirect Cost Cognizance
- Organizational Review
- Tying Costs to Functions
- Determining Allocation Bases
- Calculating the Rate
- Allowable Indirect Costs *divided by* A Selected Direct Cost Base
- Submission (or Retention of the Calculation)
- Federal Review
- Negotiation
- Issuance of a Rate Agreement
- Application of the Rate

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